

Union General Hospital, Inc.

Auditor's Reports and Financial Statements

June 30, 2013 and 2012



Union General Hospital, Inc.
June 30, 2013 and 2012

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Independent Auditor's Report

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

We have audited the accompanying balance sheets of Union General Hospital, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union General Hospital, Inc. as of June 30, 2013 and 2012, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis and pension information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Waco, Texas
November 12, 2013

Union General Hospital, Inc.

Balance Sheets

June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 2,609,506	\$ 3,187,436
Patient accounts receivable, net of allowance; 2013 – \$1,477,446, 2012 – \$861,500	1,578,713	976,189
Estimated amounts due from third-party payers	653,982	1,030,615
Supplies	168,161	166,430
Prepaid expenses and other	58,231	33,179
Total current assets	5,068,593	5,393,849
Assets Limited As To Use		
Internally designated	26,438	26,495
Property and Equipment, At Cost		
Land and land improvements	312,035	219,773
Buildings and leasehold improvements	4,537,672	4,205,481
Equipment	6,716,246	4,757,482
	11,565,953	9,182,736
Less accumulated depreciation	(7,473,268)	(7,028,886)
	4,092,685	2,153,850
Other Assets		
Other	180,276	161,479
Total assets	\$ 9,367,992	\$ 7,735,673

Liabilities and Net Assets

	2013	2012
Current Liabilities		
Accounts payable	\$ 397,734	\$ 292,018
Accrued expenses	390,465	314,338
Estimated amounts due to third-party payers	630,245	-
Total current liabilities	1,418,444	606,356
Total liabilities	1,418,444	606,356
Net Assets		
Unrestricted	7,607,503	6,734,677
Temporarily restricted	342,045	394,640
Total net assets	7,949,548	7,129,317
Total liabilities and net assets	\$ 9,367,992	\$ 7,735,673

Union General Hospital, Inc.
Statements of Operations and Changes in Net Assets
Years Ended June 30, 2013 and 2012

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$1,824,814, 2012 – \$1,314,626	\$ 10,989,412	\$ 10,884,037
Other revenue	183,003	529,458
(Loss) gain on sale of property and equipment	<u>(2,912)</u>	<u>2,090</u>
Total unrestricted revenues, gains and other support	<u>11,169,503</u>	<u>11,415,585</u>
Expenses and Losses		
Salaries and wages	4,599,211	4,355,834
Employee benefits	680,439	641,467
Purchased services and professional fees	3,750,981	3,546,047
Supplies and other	995,906	780,513
Other expenses	1,030,456	1,056,792
Depreciation and amortization	475,699	421,580
Interest	<u>14,112</u>	<u>5,920</u>
Total expenses and losses	<u>11,546,804</u>	<u>10,808,153</u>
Operating Income (Loss)	<u>(377,301)</u>	<u>607,432</u>
Other Income		
Contributions received	860,360	583,960
Investment income	<u>10,347</u>	<u>10,439</u>
Total other income	<u>870,707</u>	<u>594,399</u>
Excess of Revenues Over Expenses	493,406	1,201,831
Contributions for acquisition of property and equipment	326,825	63,177
Net assets released from restriction related to property and equipment	<u>52,595</u>	<u>52,595</u>
Increase in Unrestricted Net Assets	<u><u>\$ 872,826</u></u>	<u><u>\$ 1,317,603</u></u>

Union General Hospital, Inc.
Statements of Operations and Changes in Net Assets (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 493,406	\$ 1,201,831
Contributions for acquisition of property and equipment	326,825	63,177
Net assets released from restriction related to property and equipment	<u>52,595</u>	<u>52,595</u>
Increase in unrestricted net assets	<u>872,826</u>	<u>1,317,603</u>
Temporarily Restricted Net Assets		
Net assets released from restriction	<u>(52,595)</u>	<u>(52,595)</u>
Decrease in temporarily restricted net assets	<u>(52,595)</u>	<u>(52,595)</u>
Change in Net Assets	820,231	1,265,008
Net Assets, Beginning of Year	<u>7,129,317</u>	<u>5,864,309</u>
Net Assets, End of Year	<u><u>\$ 7,949,548</u></u>	<u><u>\$ 7,129,317</u></u>

Union General Hospital, Inc.
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	\$ 820,231	\$ 1,265,008
Items not requiring (providing) operating cash flow		
Loss (gain) on sale of property and equipment	2,912	(2,090)
Depreciation and amortization	475,699	421,580
Provision for uncollectible accounts	1,824,814	1,314,626
Contributions for acquisition of property and equipment	(326,825)	(63,177)
Changes in		
Patient accounts receivable, net	(2,427,338)	(1,142,418)
Estimated amounts due from and to third-party payers	1,006,878	(562,824)
Accounts payable and accrued expenses	181,843	8,467
Supplies	(1,731)	(9,575)
Other current assets and liabilities	(43,849)	17,819
Net cash provided by operating activities	<u>1,512,634</u>	<u>1,247,416</u>
Investing Activities		
Change in assets whose use is limited	57	57
Purchase of property and equipment	(2,417,446)	(607,813)
Proceeds from sale of property and equipment	<u>-</u>	<u>2,090</u>
Net cash used in investing activities	<u>(2,417,389)</u>	<u>(605,666)</u>
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	326,825	63,177
Principal payments on long-term debt	<u>-</u>	<u>(151,232)</u>
Net cash provided by (used in) financing activities	<u>326,825</u>	<u>(88,055)</u>
(Decrease) Increase in Cash and Cash Equivalents	<u>(577,930)</u>	<u>553,695</u>
Cash and Cash Equivalents, Beginning of Year	<u>3,187,436</u>	<u>2,633,741</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,609,506</u></u>	<u><u>\$ 3,187,436</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 14,112	\$ 7,185

Union General Hospital, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Union General Hospital, Inc. (the Hospital) is a not-for-profit, critical access hospital (CAH), located in Farmerville, Louisiana. The Hospital provides inpatient, outpatient and emergency care services for the residents of Farmerville, Louisiana, and the surrounding area. The Hospital operates a second hospital-based rural health clinic in Marion, Louisiana. Admitting physicians are primarily practitioners in the local area.

On November 22, 1983, the Hospital leased the hospital facilities from East Union Parish Hospital Service District (the District). The hospital facilities were originally constructed by the District, which issued ad valorem tax bonds to finance its construction. The Hospital's financial obligation under the lease is to maintain the leased premises in good repair and replace equipment as needed. The lease was amended and restated effective September 8, 2010, and the term extended through March 31, 2019. The agreement will renew for an additional 10-year period upon mutual agreement of the Hospital and District.

The net book value of the District's facility was recorded on the Hospital's financial statements in the initial year of the agreement and the remaining net book value is reported as temporarily restricted net assets. Annual amortization related to the District's assets are reported as assets released from restrictions in the accompanying statements of operations and changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers.

At June 30, 2013, the Hospital's cash accounts exceeded federally insured limits by \$2,159,201, which consist of funds included in a repo agreement held by a financial institution.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board of Directors (the Board) for payment of employee sick leave over which the Board retains control and may at its discretion subsequently use for other purposes. At June 30, 2013 and 2012, assets limited as to use were comprised of cash and totaled \$26,438 and \$26,495, respectively.

Change in Accounting Principle

In 2013, the Hospital changed its method of presentation and disclosure of patient service revenue, provision for bad debts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are to reclassify the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and to provide enhanced disclosures around the Hospital's policies related to uncollectible accounts. The change had no effect on prior year change in net assets.

2013			
Statement of Operations			
	As Computed Under Previous Guidance	As Computed Under ASU 2011-07	Effect of Change
Patient service revenue (net of contractual allowances)	\$ 12,814,226	\$ 12,814,226	\$ -
Provision for uncollectible accounts	-	(1,824,814)	(1,824,814)
Net patient service revenue less the provision for uncollectible accounts	<u>\$ 12,814,226</u>	<u>\$ 10,989,412</u>	<u>\$ (1,824,814)</u>
Total unrestricted revenues, gains and other support	\$ 12,994,317	\$ 11,169,503	\$ (1,824,814)
Provision for uncollectible accounts	1,824,814	-	(1,824,814)
Total expenses and losses	13,371,618	11,546,804	(1,824,814)

2012			
Statement of Operations			
	As Computed Under Previous Guidance	As Computed Under ASU 2011-07	Effect of Change
Patient service revenue (net of contractual allowances)	\$ 12,198,663	\$ 12,198,663	\$ -
Provision for uncollectible accounts	-	(1,314,626)	(1,314,626)
Net patient service revenue less the provision for uncollectible accounts	<u>\$ 12,198,663</u>	<u>\$ 10,884,037</u>	<u>\$ (1,314,626)</u>
Total unrestricted revenues, gains and other support	\$ 12,730,211	\$ 11,415,585	\$ (1,314,626)
Provision for uncollectible accounts	1,314,626	-	(1,314,626)
Total expenses and losses	12,122,779	10,808,153	(1,314,626)

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients increased from 76% of self-pay accounts receivable at June 30, 2012, to 79% of self-pay accounts receivable at June 30, 2013. In addition, the Hospital's write-offs decreased approximately \$448,000 from approximately \$1,770,000 for the year ended June 30, 2012, to approximately \$1,322,000 for the year ended June 30, 2013. The increase in the allowance for doubtful accounts for self-pay patients was the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2013.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5 – 20 years
Land improvements	5 – 20 years
Equipment	3 – 20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2013 and 2012.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by the District to a specific time period or purpose (see *Note 4*).

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Contributions

Unconditional gifts expected to be collected within one-year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any.

The Hospital participates in the Louisiana Patients' Compensation Fund established by the state of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides \$400,000 in coverage per occurrence above the first \$100,000 per occurrence. The first \$100,000 is covered by the Louisiana Hospital Association Malpractice and General Liability Trust. There is not a limitation placed on the number of occurrences covered.

Worker's Compensation

The Hospital participates in the Louisiana Hospital Association's Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). CAHs are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2013, the rural health clinic providers completed the second year requirements under the Medicaid program and the Hospital has recorded revenue of approximately \$84,000, which is included in other revenue within operating revenues in the accompanying statement of operations. Approximately \$424,000 was recorded in 2012 upon completion of the first year requirements for the Hospital under the Medicaid program.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare** – The Hospital is certified as a CAH by Medicare. As a CAH, the Hospital is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Hospital's licensed beds are limited to 25 and the Hospital's acute average length of stay may not exceed 96 hours. The Hospital is reimbursed for substantially all services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.
- **Medicaid** – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

The Hospital's cost reports have been audited through June 30, 2010.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Approximately 64% and 67% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for each of the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Additionally, the Hospital participated in the Medicaid Disproportionate Share (DSH) program and Medicaid Upper Payment Limit (UPL) program. In connection with these programs, the Hospital received net payments of \$0 and \$544,438, respectively, from participation in DSH, which is included in net patient service revenue, and \$674,722 and \$155,259, respectively, which is included in contributions received, for the years ended June 30, 2013 and 2012. The amounts the Hospital may expect to receive from these programs during the upcoming fiscal year have not been determined.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2013 and 2012, is:

	2013	2012
Medicare	29%	43%
Medicaid	26%	22%
Other third-party payers	22%	11%
Patients	23%	24%
Totals	100%	100%

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose:

	2013	2012
Property and equipment to be used in provision of health care services	\$ 342,045	\$ 394,640

During 2013 and 2012, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amounts of \$52,595 and \$52,595, respectively.

Note 5: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2013	2012
Health care services	\$ 9,813,302	\$ 9,165,217
General and administrative	1,733,502	1,642,936
	\$ 11,546,804	\$ 10,808,153

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Note 6: Operating Leases

Noncancellable operating leases for equipment and offices expire in various years through 2017. These leases generally contain renewal options for periods ranging from one to five years and require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental and lease expense was \$151,014 and \$155,564 for 2013 and 2012, respectively.

Future minimum lease payments at June 30 were:

2014	\$	82,647
2015		38,744
2016		1,716
2017		1,144
		<hr/>
	\$	124,251
		<hr/>

Note 7: Employee Benefits

Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$43,087 and \$40,939 for 2013 and 2012, respectively.

Note 8: Related Party Transactions

The Hospital from time to time conducts business with organizations that are affiliated with Board members. This is often a result of a limited number of vendors in smaller communities. During 2013 and 2012, the Hospital maintained funds at Community Trust Bank where a Hospital Board member serves on the Board of Directors. Approximately \$2,362,000 of the Hospital's cash balance was held at Community Trust Bank at year-end. In addition, Community Trust Bank had issued a note payable to the Hospital that was paid in full in 2012.

In March 2008, the voters of the District approved the authorization of a ten-year, \$5.56 million property tax levy on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping and operating the Hospital facilities. The District Board of Directors determines how the tax proceeds will be spent. At the District's election, the Hospital may receive a portion of the tax proceeds from the District as a contribution. During the years ended June 30, 2013 and 2012, the Hospital received \$440,592 and \$411,798, respectively, from the East Union Service District.

Union General Hospital, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 2*.

Admitting Physicians

The Hospital is served by three admitting physicians whose patients comprise approximately 48% of the Hospital's net patient service revenue.

Suppliers

The Hospital is dependent on a third-party provider of emergency care services whose contract renews annually. Failure to obtain annual renewal of this contract or locate an alternative supplier could result in a future disruption of service to patients.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Management Agreements

The Hospital has entered into a contract for administrative services with IASIS Glenwood Regional Medical Center, which automatically renews each year. This contract requires that the management company provide personnel to perform duties as the Hospital administrator. Fees paid approximated \$14,500 a month.

Note 10: Subsequent Event

Subsequent events have been evaluated through November 12, 2013, which is the date the financial statements were issued.

**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Union General Hospital, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2013, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2013.

Internal Control over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as item 13-1, that we consider to be significant deficiencies in internal control.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hospital's Response to Findings

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matter

We also noted certain matters that we reported to the Hospital's management in a separate letter dated November 12, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Waco, Texas
November 12, 2013

Union General Hospital, Inc.

Schedule of Findings and Responses

Year Ended June 30, 2013

Reference Number	Finding
13-1	<p>Segregation of Duties</p> <p>Criteria: Personnel functions that have the ability to conceal and perpetrate fraud should be segregated.</p> <p>Condition: The Hospital has a lack of segregation of duties regarding bank reconciliations, payment processing and payroll processing.</p> <p>Context: The personnel that reconciles the bank account also makes journal entries and processes payments; the business office manager has the ability to take payments, post adjustments and write-off accounts; the payroll personnel has the ability to create a new employee within the system and generate payroll direct deposits.</p> <p>Effect: The ability to conceal and perpetrate fraud.</p> <p>Cause: The Hospital operates a smaller/medium sized facility and has limited personnel.</p> <p>Recommendation: The Hospital should segregate incompatible duties to improve its internal controls related to cash receipts, cash payments and payroll. Specifically, individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. Additionally, personnel with access to patient payments should not also have the ability to authorize or approve adjustments to patient accounts.</p> <p>Views of responsible officials and planned corrective actions: We understand the importance of the Segregation of Duties as it relates to maintaining internal control. As mentioned, the Hospital does have limited personnel in certain areas that creates a lack of Segregation of Duties, but we believe that we have sufficient checks and balances in place in those areas to adequately minimize any risks.</p>

Union General Hospital, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Reference Number	Summary of Finding	Status
12-1	Segregation of Duties	Unresolved. See finding 13-1

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

As part of our audit of the financial statements of Union General Hospital, Inc. (the Hospital) as of and for the year ended June 30, 2013, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in Government Auditing Standards Issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Hospital's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowances for doubtful accounts and contractual adjustments
- Amounts due to/from third-party payers

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Net patient service revenue

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Record net assets released from restriction during the year
- Adjust cost report settlement estimates
- Adjust payroll accrual to actual

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Hospital's application of accounting principles:

No matters are reportable.

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

No matters are reportable.

Consultation with Other Accountants

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters:

No matters are reportable.

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

No matters are reportable.

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

No matters are reportable.

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

No matters are reportable.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter (*attached*)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Hospital as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be significant deficiencies and deficiencies.

Significant Deficiencies

Management is responsible for establishing and maintaining effective control over financial reporting. A few individuals within the entity have incompatible duties in several financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the entity's assets. Following is a summary of various incompatible duties we identified.

- The personnel that reconciles the bank account also makes journal entries and processes payments; the business office manager has the ability to take payments, post adjustments, and write-off accounts.
- The payroll personnel has the ability to create a new employee within the system and generate payroll direct deposits.

The Hospital should segregate incompatible duties to improve its internal controls related to cash receipts, cash payments and payroll. Specifically, individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. Additionally, personnel with access to patient payments should not also have the ability to authorize or approve adjustments to patient accounts.

Management should evaluate the cost vs. the benefits of further segregating these duties or adding monitoring or other compensating controls.

Deficiencies

During the course of the audit, we proposed audit adjustments to adjust the cost report settlements and to record net assets released from restriction. Management recorded these adjustments. We also proposed audit adjustments to reclassify accounts receivable credit balances, properly record a capital lease, record a reserve for an outstanding employee loan and recognize estimated fees and insurance recoveries related to defend a malpractice claim. Management did not make these proposed audit adjustments because they determined the aggregate effect is not currently material to the financial statements.

Additionally, with the transition to HMS and Success EHS, we noted that payroll could be processed without formal approval. We recommend implementing a control that will not allow payroll to be processed without the appropriate approvals.

This communication is intended solely for the information and use of management, the Board of Directors and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 12, 2013

June 12, 2013

caring when it counts.

BKD, LLP
Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, Texas 75254-2961

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2013 and 2012. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 22, 2013, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of Board of Directors' meetings held through the date of this letter.
 - (e) All significant contracts and grants.
 - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets or liabilities.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting

practices or other matters that could have a material adverse effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.
11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Hospital.
12. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Hospital is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and

disclosed in accordance with accounting principles generally accepted in the United States of America.

15. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.
16. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Reducing obsolete or excess inventories to estimated net realizable value.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
17. Except as disclosed in the financial statements, the Hospital has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
18. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:
 - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.
19. With respect to any nonattest services you have provided us during the year, including assisting with the preparation of a draft of the financial statements and related notes:


- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
20. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
21. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
22. We further acknowledge the Hospital's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the Hospital's Board of Trustees subsequently approved an implementation strategy to address needs identified in the assessment. The Hospital is also in compliance with certain requirements dealing with financial assistance, billing and collection practices and limitations on charges for uninsured patients that meet our financial assistance requirements.
23. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
24. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
25. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

26. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
27. We have a process to track the status of audit findings and recommendations.
28. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
29. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
30. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
31. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
32. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
33. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
34. With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.

- (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
35. We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Hospital's financial statements. Further, management and the Board are solely responsible for all aspects of managing the Hospital, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

Union General Hospital, Inc.


Evalyn Ormond, Chief Executive Officer


William Adcock, Chief Financial Officer

Union General Hospital, Inc.
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	5,068,593	33,568	5,102,161	0.66%
Non-Current Assets	4,299,399	27,674	4,327,073	0.64%
Current Liabilities	(1,418,444)	(33,568)	(1,452,012)	2.37%
Non-Current Liabilities		(43,622)	(43,622)	
Current Ratio	3.573		3.514	-1.65%
Total Assets	9,367,992	61,242	9,429,234	0.65%
Net Assets	(7,949,548)	15,948	(7,933,600)	-0.20%
Total Net Assets	(7,949,548)	15,948	(7,933,600)	-0.20%
Revenues & Income	(11,169,503)		(11,169,503)	
Costs & Expenses	10,349,272	577	10,349,849	0.01%
Change in Net Assets	(820,231)	577	(819,654)	-0.07%

Client: Union General Hospital, Inc.

Period Ending: June 30, 2013

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), or Projected (P)	Assets		Liabilities		(X) Non Tax	Revenues & Income	Costs & Expenses	Net Assets (Beg. of year)	Net Effect on Following Year	
			Current	Non-Current	Current	Non-Current					change in Net Assets	Net Assets
			DR (CR)	DR (CR)	DR (CR)	DR (CR)					DR (CR)	DR (CR)
Record reserve for outstanding employee loan		J		(7,445)				7,445				
	LT assets and expense			(7,445)				7,445			N/A - Estimate	
Record capital vs. operating lease		F		20,119		(28,622)			(6,868)	15,371		
	Non-current assets, non-current liabilities			20,119		(28,622)			(6,868)	15,371		
	Expense, and net assets											
Reclass AR credit balances.		F	33,568		(33,568)							
	AR and current liabilities		33,568		(33,568)							
Record estimated fees to defend malpractice on claim which has probable occurrence of loss.		J		15,000		(15,000)						
	Noncurrent Assets and Noncurrent Liabilities			15,000		(15,000)						

Taxable passed adjustments

Times (1 - estimated tax rate of 00%)

Taxable passed adjustments net of tax impact

Nontaxable passed adjustments

Total passed adjustments, net of tax impact (if any)

33,568	27,674	(33,568)	(43,622)
33,568	27,674	(33,568)	(43,622)

	577	15,371
100%	100%	100%
	577	15,371
	577	15,371

Impact on Change in Net Assets 577

Impact on Net Assets 15,948